

**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
April 25, 2007 Through April 30, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
April 25, 2007 Through April 30, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for Scott County Sheriff for the period April 25, 2007 through April 30, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$22,782,976 for the districts for 2007 taxes, retaining commissions of \$783,856 to operate the Sheriff's office. The Sheriff distributed taxes of \$21,968,880 to the districts for 2007 taxes. Taxes of \$11,045 are due to the districts from the Sheriff and a refund of \$256 is due to the Sheriff from a taxing district.

Report Comments:

- The Sheriff Has A \$10,273 Deficit For The 2007 Tax Collection Period
- The Sheriff Should Implement Control Procedures To Improve Financial Accountability Over Tax Collections

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the Scott County Sheriff's Settlement - 2007 Taxes for the period April 25, 2007 through April 30, 2008. This tax settlement is the responsibility of the Scott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Scott County Sheriff's taxes charged, credited, and paid for the period April 25, 2007 through April 30, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2008, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Has A \$10,273 Deficit For The 2007 Tax Collection Period
- The Sheriff Should Implement Control Procedures To Improve Financial Accountability Over Tax Collections

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

December 18, 2008

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period April 25, 2007 Through April 30, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,818,412	\$ 2,995,908	\$ 11,834,581	\$ 3,815,693
Tangible Personal Property	189,542	343,617	727,259	810,485
Increases Through Exonerations	204	336	1,329	435
Limestone, Sand and Mineral Reserves	525	866	3,419	1,068
Franchise Taxes	82,010	128,549	364,795	
Additional Billings	1,671	2,759	10,822	3,427
Penalties	13,040	21,461	83,822	26,841
Gross Chargeable to Sheriff	<u>2,105,404</u>	<u>3,493,496</u>	<u>13,026,027</u>	<u>4,657,949</u>
<u>Credits</u>				
Exonerations	5,427	8,942	35,321	11,032
Discounts	33,991	56,654	212,014	78,969
Delinquents:				
Real Estate	277	456	1,801	562
Tangible Personal Property	2	3	13	4
Additional Bills	4,701	7,390	18,589	23,752
Total Credits	<u>44,398</u>	<u>73,445</u>	<u>267,738</u>	<u>114,319</u>
Taxes Collected	2,061,006	3,420,051	12,758,289	4,543,630
Less: Commissions *	<u>87,880</u>	<u>145,352</u>	<u>357,232</u>	<u>193,392</u>
Taxes Due	1,973,126	3,274,699	12,401,057	4,350,238
Taxes Paid	1,970,562	3,264,929	12,386,323	4,347,066
Refunds (Current and Prior Year)	<u>1,808</u>	<u>2,924</u>	<u>11,291</u>	<u>3,428</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Audit	<u>\$ 756</u>	<u>\$ 6,846</u>	<u>\$ 3,443</u>	<u>\$ (256)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES
For The Period April 25, 2007 Through April 30, 2008
(Continued)

* Commissions:

10% on \$	10,000
4.25% on \$	10,014,686
2.8% on \$	12,758,290

** Special Taxing Districts:

Library District	\$	5,813
Health District		123
Extension District		<u>910</u>
Due Districts	\$	<u><u>6,846</u></u>

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 23, 2007 through April 30, 2008.

Note 4. Interest Income

The Scott County Sheriff earned \$45,974 as interest income on 2007 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Scott County Sheriff collected \$126,437 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of December 18, 2008, the Sheriff owed \$14,896 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Scott County Sheriff collected \$6,940 of advertising costs and \$20,200 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Period April 25, 2007 Through April 30, 2008

Assets

Cash in Bank (2007 Tax Account)	\$ 170,164
Deposits in Transit	73,615
Receivables:	
Tax Sale Proceeds, NSF Check Collections, Interest, Other	575,329
Due from State	256
Interest Due from School	<u>726</u>
Total Assets	<u>820,090</u>

Liabilities

Paid Obligations-	
Outstanding Liabilities	799,540
Unpaid Obligations-	
Other Taxing Districts-	
County	\$ 756
School	3,443
Library	5,813
Health	123
Extension	910
Tax Comissions Due Sheriff's Fee Account	4,630
Add On Fees Due Sheriff's Fee Account	14,896
Interest Due Sheriff's Fee Account	<u>252</u>
Total Unpaid Obligations	<u>30,823</u>
Total Liabilities	<u>830,363</u>
Total Fund Deficit as of April 30, 2008	<u><u>\$ (10,273)</u></u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Scott County Sheriff's Settlement - 2007 Taxes for the period April 25, 2007, through April 30, 2008, and have issued our report thereon dated December 18, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scott County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Scott County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Scott County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement, that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff Has A \$10,273 Deficit For The 2007 Tax Collection Period
- The Sheriff Should Implement Control Procedures To Improve Financial Accountability Over Tax Collections



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Scott County Sheriff's Settlement - 2007 Taxes for the period April 25, 2007 through April 30, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Scott County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Scott County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 18, 2008

COMMENTS AND RECOMMENDATIONS

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 25, 2007 Through April 30, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The Sheriff Has A \$10,273 Deficit For The 2007 Tax Collection Period

The Sheriff is responsible for a deficit of \$10,273 for the 2007 tax collection period as of April 30, 2008. Based on audit procedures performed, the deficit is the result of problems with regard to daily, monthly and overall reconciliation procedures as discussed in the following comment. We recommend the Sheriff eliminate the \$10,273 deficit with a deposit of personal funds into his official bank account.

Sheriff's Response: I will take care of this.

The Sheriff Should Implement Control Procedures To Improve Financial Accountability Over Tax Collections

Test procedures conducted during the audit determined internal controls over tax collections should be implemented to improve financial accountability over tax collections. Our test of tax collections for the month of November 2007 revealed several days where daily bank deposits were not reconciled to the daily tax collection report. Our testing also revealed variances between cash and check amounts indicated on daily collection reports and amounts deposited.

Based on these findings and the reported deficit, the auditor makes the following recommendations:

- The Sheriff should assign cash drawers to individual employees, and access to cash drawers should then be limited to the assigned employee.
- The Sheriff should conduct video surveillance of the front desk area where collections occur.
- The Sheriff should require employees to lock their cash drawer while absent from their desk.
- The Sheriff should maintain start-up funds for each cash drawer and eliminate the need to share change between drawers.
- The Sheriff should require employees to reconcile their cash drawer on a daily basis. The assigned employee should then document the daily reconciliation by initialing the daily cash drawer report.
- The Sheriff or Bookkeeper should recount cash drawer contents in the presence of the assigned deputy to ensure reconciliation. The Sheriff or Bookkeeper should sign off on the daily cash drawer report to reflect agreement.
- The Sheriff and Bookkeeper should check each other's cash drawer for reconciliation and document on cash drawer report.

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 25, 2007 Through April 30, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

The Sheriff Should Implement Control Procedures To Improve Financial Accountability Over Tax Collections (Continued)

- The Sheriff and Bookkeeper should ensure and document each day that the daily cash drawer report agrees to the bank deposit. Variances should be resolved immediately and documented on the daily cash drawer report.
- The Sheriff should require the Bookkeeper to ensure that items recorded on deposit tickets (cash and/or currency and checks) agree to amounts reflected on daily collection reports.

Sheriff's Response: We are doing all of this except video surveillance.

Auditor's Reply: These procedures were not being performed during the period under audit. However, the Sheriff stated that he implemented most of these procedures before the 2008 tax collection period.

